



Date: December 17, 2024

To: Honorable Mayor and Members of the City Council

From: Finance and Governmental Operations Committee

By: Jasmine Allen, Deputy City Treasurer | JAllen@TorranceCA.Gov

Subject: Finance and Governmental Operations Committee – Accept and File Fiscal Year 2024-25 First Quarter Investment Portfolio Report. Expenditure: None.

RECOMMENDATION

Recommendation of the City Council Finance and Governmental Operations Committee that the City Council accept and file the Fiscal Year 2024-25 First Quarter Investment Portfolio Report.

FUNDING

None required.

DISCUSSION

Each year, the City Treasurer provides an Investment Portfolio Report update as part of the First Quarter Budget Review Report.

Investment Summary

As of June 30, 2024, the ending balance of total funds was \$350,591,633, which included investments of \$337,314,834 and cash of \$13,276,799. City's portfolio yielded 4.569%. The fiscal year-to-date earnings were \$11,850,674. The 1-year, 2-year, and 5-year United States ("US") Constant Maturing Treasury (CMT) yielded at 5.09%, 4.71%, and 4.33% respectively.

As of September 30, 2024, the ending balance of total funds was \$328,138,464, which included investments of \$307,983,569 and cash of \$20,154,895. City's portfolio yielded 4.489%. For the first quarter earnings were \$3,448,596. The 1-year, 2-year, and 5-year US CMT yielded at 3.98%, 3.66%, and 3.58%, respectively.

Market Portfolio Snapshot

| | June 2023 | Sept 2023 | June 2024 | Sept 2024 |
|-------------------------|---------------|---------------|---------------|---------------|
| Book Value | \$275,374,721 | \$240,790,089 | \$337,314,834 | \$307,983,569 |
| Market Value | \$270,510,218 | \$235,014,399 | \$335,071,708 | \$309,071,436 |
| Portfolio Yield | 4.167% | 4.106% | 4.569% | 4.489% |
| Days to Maturity | 766 Days | 870 Days | 543 Days | 434 Days |

Market Conditions/Investment Forecast

Consumer inflation has fallen from a year-over-year peak of 8.6% in June 2022 to 3.2% in September 2023, and further to 2.4% by September 2024, bringing it closer to the Federal Reserve's 2% target. Since launching the most aggressive series of rate hikes in four decades in March 2022 to contain inflation with eleven consecutive rate hikes, the Federal Reserve pulled back and held rates steady for a year, then finally in September of 2024 the Fed implemented a highly anticipated rate cut of 50 basis points reducing the target range to 4.75%-5.00%. This was followed by an additional 25 basis points cut in November, bringing the federal funds rate to a new target range of 4.50%-4.75%.

The economy grew 2.8% during the July-September quarter. The increase in September's current-dollar personal income primarily reflected an increase in compensation. The increase in real GDP for the third quarter of 2024 primarily reflected increases in consumer spending.

| Federal Reserve Meeting | Action Taken | Fed Fund Rate |
|------------------------------------|---------------------|----------------------|
| November 7, 2024 | -25 basis points | 4.50%-4.75% |
| September 18, 2024 | -50 basis points | 4.75%-5.00% |
| September 17, 2023 – July 26, 2024 | No action taken | 5.25%-5.50% |
| July 26, 2023 | +25 basis points | 5.25%-5.50% |
| May 3, 2023 | +25 basis points | 5.00%-5.25% |
| March 22, 2023 | +25 basis points | 4.75%-5.00% |
| February 1, 2023 | +25 basis points | 4.50%-4.75% |
| December 14, 2022 | +50 basis points | 4.25%-4.50% |
| November 2, 2022 | +75 basis points | 3.75% - 4.00% |
| September 21, 2022 | +75 basis points | 3.00% - 3.25% |
| July 27, 2022 | +75 basis points | 2.25% - 2.50% |
| June 16, 2022 | +75 basis points | 1.50% - 1.75% |
| May 5, 2022 | +50 basis points | 0.75% - 1.00% |
| March 17, 2022 | +25 basis points | 0.25% - 0.50% |

During the quarter, the 2-year and 5-year Treasury yields were 3.66% and 3.58%, respectively. The Local Agency Investment Fund (LAIF) daily rate slightly declined to 4.575%, while the California Asset Management Program (CAMP) rate also decreased to 5.290%. The 10-year Treasury yield stood at 3.81% as of September 30, 2024, with investment strategists forecasting a modest decline to 3.75% by the end of 2025.

Inflation has cooled significantly, and the labor market remains resilient. The unemployment rate for September 2024 was 4.1%, just 0.3% higher than in September 2023. Economists anticipate further rate reductions in the coming year. Over the longer term, the U.S. Federal Reserve's target interest rate is projected to settle around 3.50% in 2025 and 3.00% in 2026.

Compliance

The City is in compliance with California Government Code Section 53646 which requires local agencies to report on its ability to meet pooled expenditure requirements for the next six (6) months. Throughout fiscal year 2023-24 and through the first quarter of fiscal year 2024-25, cash, cash equivalents (including LAIF, CAMP, and Sweep Money Market) and projected inflows exceeded projected cash outflows. Over the next six months, the City anticipates large cash inflows consisting of property tax and business license tax receipts, which are typically received December through February and April through May.

Investment Strategy

To be consistent with the City's objectives, the City's funds are invested in high-quality money market instruments and government securities, with a maximum maturity of five years. As of the first quarter, the City holds investments totaling \$308M in a diversified portfolio, which includes Treasuries, Agencies, Medium-Term Notes, Municipal Bonds, Certificates of Deposit, and shorter-duration liquid funds, such as CAMP. As the inverted yield curve begins to reverse, with 5-year yields expected to surpass shorter-term yields, the City will lock in these longer-duration securities, aligning maturities with anticipated cash flow needs to meet operating cost obligations. As interest rates for LAIF and CAMP continue to fluctuate, the City will adjust its allocation between the two funds based on their respective yields, maximizing returns while maintaining liquidity. Currently, the City has its liquid investments in CAMP, as it offers the highest yield and maintains liquidity. To meet large payment obligations, the City will continue to invest in CAMP and LAIF ensuring both optimal yield and access to liquid funds. While the City anticipates large cash inflows from December through February, and again from April through May, staff will continue to monitor interest rates of both fixed income investments and liquid funds and will invest all idle funds while continuing to meet the City's cash flow needs. As the City continues to lock in longer-term rates, its portfolio is positioned to generate strong returns over the coming quarters.

After reviewing this report with staff, it is the recommendation of the City Council Finance and Governmental Operations Committee that City Council accept and file the Fiscal Year 2024-25 First Quarter Budget Review Report.

ATTACHMENT

1. Fiscal Year 2024-25 First Quarter Investment Portfolio Report

ATTACHMENT 1

INVESTMENT PORTFOLIO REPORT

December 16, 2024



Investment Portfolio Report

- ▶ Portfolio Objective
- ▶ Portfolio Performance
- ▶ Compliance
- ▶ Market Summary





Portfolio Objective

The City's investment objectives are the following:

- ▶ First, to provide **safety** of principal to ensure preservation of capital in the overall portfolio;
- ▶ Second, to provide sufficient **liquidity** to meet all operating requirements;
- ▶ Third, to earn a commensurate **rate of return** consistent with the constraints imposed by the safety and liquidity objectives.

Portfolio Performance

Quarter-Over-Quarter Analysis

| | <u>Q1 2023</u> | <u>Q1 2024</u> |
|---------------------------|----------------|----------------|
| Total Funds | \$260.2M | \$328.1M |
| Cash in Bank | \$19.4M | \$20.2M |
| Investments per Portfolio | \$240.8M | \$308M |
| Yield | 4.106% | 4.489% |
| Interest Earnings (YTD) | \$2.6M | \$3.5M |
| Days to Maturity | 2.38 Years | 1.19 Years |
| | | |

Investment Policy Compliance

September 30, 2024

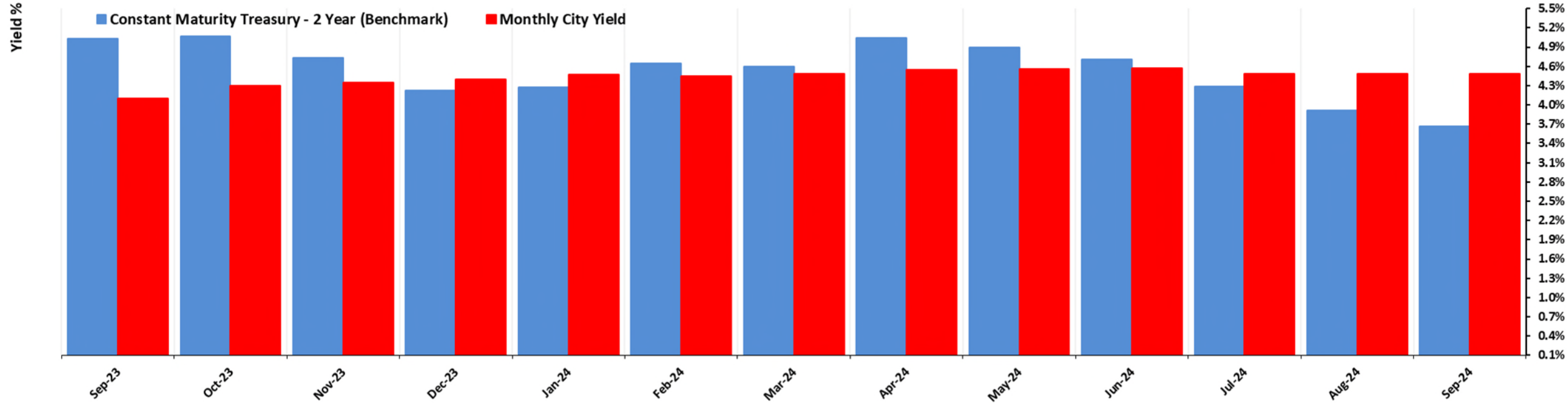
| <u>Securities:</u> | <u>% Portfolio</u> | <u>% Permitted</u> |
|---------------------------|---------------------------|---------------------------|
| Treasuries | 9.1 | 100 |
| Agencies | 34.6 | 75 |
| Medium Term Notes | 14.5 | 30 |
| Muni Bonds | 0.1 | 10 |
| Negotiable CDs | 2.8 | 30 |
| LAIF | 0 | \$75M |
| CAMP | 25.3 | 30 |
| Money Market | 13.5 | 20 |

Investment Liquidity Compliance September 30, 2024

- ▶ The City is in compliance with California Government Code Section 53646 which requires local agency to report its ability to meet pooled expenditure requirements for the next six (6) months.
- ▶ Over the next 6 months, projected cash, cash equivalents (LAIF, CAMP, Sweep Money Market) and projected inflows including maturities exceed cash outflows by \$164.8M.

| Cash Activity/Balances projected over the next 6 months (millions): | | | |
|---|--|----|-------|
| Cash Balance as of September 30, 2024 | | \$ | 20.2 |
| CAMP/LAIF Balance as of September 30, 2024 | | \$ | 78.0 |
| Money Market Account as of September 30, 2024 | | \$ | 41.6 |
| Cash Inflows | | \$ | 229.5 |
| Cash Outflows | | \$ | 204.5 |
| Projected Cash/Liquidity Balance | | \$ | 164.8 |

City's Yield Comparison



Market Summary¹¹

- ▶ Inflation has fallen from 8.6% in June 2022 to 3.2% in September 2023, and further to 2.4% by September 2024.
- ▶ Following aggressive changes in the federal funds rate through 2022 with eleven consecutive hikes, the Fed cut rates by 50 basis points in September 2024, followed by a 25 basis points cut in November, bringing the target range to 4.50%-4.75%. Economists anticipate a quarter-point rate cut in December, and further rate reductions in the coming year.
- ▶ Interest earnings are projected to remain strong through FY2024-25 (~\$10 Million) due to strategic allocation across various asset types, maximization of investment funds, and the locking in of high-yield securities for longer duration.

INVESTMENT QUESTIONS & DISCUSSION

